DEREGULATION AND THE JAPANESE ECONOMY IN THE 21ST CENTURY

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As you are all aware, 1999 was a very lively year in trade. And most of you will also be aware that during 1999, the headlines did not always go to Japan. But while history sometimes proceeds ahead with shouting, publicity and street marches – as in our agreement with China or the WTO's Ministerial Conference in Seattle – at other times it proceeds more quietly but with implications that are equally important.

And that is the case, I maintain, in many of our negotiations on trade with Japan over the past two years. This week, I will meet with my fellow co-chair, Deputy Foreign Minister Nogami, to discuss the third year of the "Enhanced Initiative on Deregulation and Competition Policy" created by President Clinton and then-Prime Minister Hashimoto at the Denver G-8 Summit in 1997. It is a slightly dull name for a very exciting and fundamentally important medium for decisions: effecting Japan's transition to a new economic model at home; and, with this domestic transformation, an accompanying transition to less acrimonious trade relationships abroad.

NEW CHALLENGES

Let me begin this discussion by looking backward. Over the past 15 years, our trade relations with Japan have fundamentally changed. In the early and mid-1980s, U.S. trade policy focused essentially on restricting Japanese imports in autos, steel, and other manufacturing sectors. Since that time the focus has shifted to a policy aimed at gaining access to the Japanese market.

This reflects changes in our economic relationship. Ten years ago, as we all well remember, Japan was booming and America was questioning its future. The speculation at home and abroad was that America had entered an era of long-term decline; and that Japan, with superior manufacturing and greater social stability, would inevitably take America's place as the world's leading economic power. American scholars were writing that Japan was "number one;" a few Japanese spoke of a Japan that could "say no" to impertinent gaijin. The prevailing state of mind only twelve years ago was illustrated well by Paul Kennedy in the hot book of 1987, The Rise and Fall of the Great Powers:

> "The task facing American statesmen over the next decades is to recognize that broad trends are under way, and that there is a need to "manage" affairs so that the relative erosion of the United States position takes place smoothly and slowly."

Today, the tables have turned: the hot books are now saying more or less the same thing about Japan that they were saying then about the U.S. And, looking at our own growth and employment figures this past decade, Americans are in a bit of a chest-thumping mood.

This is all a bit overdone, of course. To be sure, Americans have reason to take pride in our work over the past decade. But we also have substantial reason to be humble, in the face of the work remaining before our country to eliminate poverty, improve elementary and secondary education and address other social problems. While Japan has its own real problems, which I will come to in a moment, Japan also retains the strengths its admirers pointed to ten years ago.

Japan's manufacturing industries produce almost as much as America's, in a country with half our population; and in an economy less than one-half our size, Japanese firms, universities, and government laboratories invest as much money as we do in state-of-the-art research and development.

Japan's entrepreneurs, when they have the opportunity, are among the world's most creative and adaptable. A century ago business greats such as Yotaro Iwasaki, founder of the Mitsubishi group, and financier and textile tycoon Shibusawa Eiichi created modern industry in Japan from scratch. The turmoil of post-war Japan gave rise to a new class of high-tech entrepreneurs such as Akio Morita of Sony and Kazuo Inamori of Kyocera. Today men like Son and Shigeta are leading a new class of dot.com venture businesses led by bright, international, risk-taking young people who are trying to forge a brand new Japan.

So while Japan's problems – evident in a decade of low growth, capped by last week's GDP figures; financial difficulties; and declining competitiveness – are real, they are also by no means insoluble. They arise from specific policies that reflect an outdated regulatory philosophy that both weakens existing companies and acts to prevent new ones from emerging. They can be solved by specific reforms. The discussions which bring me to Tokyo are part of the solution.

MACHINE AGE AND INFORMATION AGE

Our modern economy has drawn a great deal from the Japanese experience – the quality and productivity of American manufacturing has built upon both the competitive spur Japanese companies have provided, and upon lessons drawn from Japanese factories. Likewise, Japan may be able to draw upon some of our experience as it takes up the problems it has experienced in the past decade.

Fundamentally, I believe that the roots of Japan's present problems lie in the slow transition in economies from the age of machinery to the age of information. This is turn rests in the slow transition Japanese government officials and industrial leaders have made from an era in which government helped to control economic outcomes to one in which government provides the impartial and transparent regulation that can spur competition and innovation.

This is a field in which the United States can claim a genuine and long-term, although perhaps still partial, success. Much of our present economic buoyance derives, I believe, from a decision to leave the regulatory fields of the 1930s, 1940s and 1950s – in which government imposed controls over input, output and prices, including setting airline schedules, monitoring and controlling wages, telling farmers what to grow, and assigning rates for phone, power and similar services.

Our move away from this approach has been a slow, difficult, but also successful and bipartisan approach. It began with the Carter Administration in energy, airlines and then telecommunications, and has since moved in many other industries. At the same time, we have progressively opened our economy to trade and competition. As a result, many of our industries have come innovative in adopting new technologies, and internationally much more competitive than they might have been 12 years ago. This in turn has led to the creation of 20 million jobs in the past decade – a dramatic development in contrast to only 830,000 new jobs created in Japan in the same period.

This set of reforms, however, has been premised not on a nihilistic premise that the best government is no government. Rather, it accepts an important and, in some areas, growing role for impartial regulation. Above all, as government turns decision on prices and production levels over to the private sector and the market, it can concentrate more effectively on areas where the market will not always offer a solution. When the market fails to provide incentives to private firms to supply public goods such as environmental protection, public health and consumer welfare, regulation can promote efficiency, reduce waste and offer us a combination of industrial growth and a rising quality of life. Vigorous competition policy is one such public good that has become an essential element of economic governance in America. It has enabled us to ensure that powerful firms do not inhibit the growth of cutting-edge industries through anti-competitive behavior.

This shift to competitive markets has been much slower in Japan than in the America. Japanese ministries remain far more concerned than their American counterparts with controlling prices, production, competition (from domestic sources as well as from abroad) and economic outcomes. And their instinct is, of course, to protect the market share, revenue, and employment of their industrial clients, whether in power, heavy industry, housing, construction, telecommunications, transportation or natural resources. As a result, a Japanese company today pays more for everything it needs to run its business - from telephone calls and Internet access to energy bills office rent, construction materials, and beyond - than its foreign competitors.

Nowhere does this threaten Japan’s competitive future more than in telecommunications. NTT is a colossus whose market power has barely been affected by competition. Natsume Soseki may as well have been referring to this government-created monopoly when he wrote in his novel Kokoro that “the trouble with inheriting money from one’s parents is that it dulls one’s wits. It’s a bad thing not to have to struggle for one’s living.” Like too many Japanese firms, NTT has chosen to lobby for protection of its bequeathed position of privilege rather than welcome the challenge

from its emerging competitors.

Because the Japanese Government has allowed NTT to maintain its monopoly position, most of NTT's competitors are forced to use NTT lines, paying outrageously high interconnection charges that total between 40-70% of their call revenue. Since NTT collects fees from 94% of Japan's fixed-line Internet traffic, it's no wonder that Internet access costs 8-10 times more here than it does in the United States.

What does that mean for individual citizens. It means that my daughter Alison pays the equivalent of 900 yen a month for access to the Internet. That includes phone charges. Yoshiko, the daughter of a good friend here in Tokyo, can soon sign up for NTT's new flat rate service – for only 7830 yen a month! And that doesn't include the ISP (Internet service provider) charge. It's no surprise, therefore, that Alison spends a lot more time on the Internet than Yoshiko, doing her research, communicating through e-mail to her professors and staying in touch with her family and friends.

What are the implications at the national level? Lower phone rates mean that Americans use their telecom network, by minutes of use, three times more than the Japanese. Japanese Internet usage is well below American levels. Only a sixth of Japanese households, compared to half of America's are now linked to the Internet. And in 1998, only 35% of Japan's 38,000 schools enjoy access to the Internet versus 95% of American schools.

The Internet is the new nerve center of the global economy. Inhibiting its use through high connection fees condemns Japan to lag behind in the development of electronic commerce. With other countries, from Finland to Korea to Chile, moving aggressively to meet the challenges of the Information Age, no less is at stake than Japan's position at the forefront of the global economy. I've heard some observers claim that Japan can circumvent the high cost of fixed-line Internet access by using cell phones to connect to the Internet. Don't get me wrong; I-mode is a wonderful innovation. It is a great money-making business and provides a useful service to millions of Japanese teenagers. But to an extent, it is the "arm-candy" of Japan's telecom culture, or as one major Japanese CEO told me recently, it is "sugar, not protein." It is not designed to serve as a viable foundation for IT business networks.

Other wireless alternatives that are being developed are attractive partly because they bypass NTT's wireline network. But promoting the wireless sector while protecting the wireline sector will leave Japan's telecom network hobbled and distorted. What Japan needs is more competing networks, both wireline and wireless. High interconnection rates are dramatically reducing the incentives to build wireline networks. Users will be held hostage to NTT's inefficiencies, and Japan's transition to the information economy will be profoundly delayed.

A key means of promoting competition in the wireless market to provide lower priced, high-speed Internet access is through unbundling, particularly with a new technology called DSL. Korea recently announced its plans to install 3 million DSL lines this year, more than the rest of

the world combined. Is there any reason why Japan should fall so far behind Korea in this area?

The rewards that Japan can reap from plugging into the Internet are vast. Procurement over the Net can empower individual firms to break free from the shackles of outdated and inefficient supply and distribution chains. That's why Matsushita's recent decision to source 2.2 trillion yen's worth of parts and supplies exclusively from the Net is so exciting – if the firm can pull it off. As Japanese society ages and the corporate return on assets hovers at barely two percent, these kinds of innovations will be crucial to the ability of Japanese firms to drive down costs, improve profit margins and returns to their shareholders, and restore growth to their employment base in order to compete in the new global economy. Goldman Sachs estimates that on-line procurement alone could push Japan's output up 5.8 percentage point over the next ten years. And McKinsey estimated that, over the same period, e-commerce could boost Japan's GDP by 13%.

U.S. TRADE POLICY

These are all potential benefits: they will not become reality unless Japanese make a leap from controlling outcomes to embracing competition. And Japan must make that decision itself, in its own interest.

These are intimidating, difficult decisions. They raise concerns about job tenure, family security and ultimately social stability. The recent formation of an LDP party group to "study" the purported negative impact of regulatory change on small businesses is a case in point. I understand that the group's membership now includes more than half the LDP's representatives in the Diet.

Just this week the Economic Magazine noted concern that Japan is wavering in its commitment to deregulation. "A year ago," it said, "the Posts and Telecommunications Ministry was threatening NTT with sharp cuts in the interconnection costs it levies on competitors who want to use its network. Thanks to pressure from the ruling LDP, the bureaucrats are now siding with NTT, which is naturally planning a gentler future for itself."

Japan's leadership must forcefully reject this corruption of economic progress. Persistence in the old ways, to cite another figure of the last millennial transition, threatens to transform Japan into a fading giant, reminiscent of the list of "things that have lost their power" in Shonagon Sei's Makuro no Sochi:

> "A large boat high and dry in a creek at ebb-tide; a large tree blown down in a gale, lying on it side with its roots in the air; the retreating figure of a sumo wrestler who has been defeated in a match."

That is not a future anyone should hope to see for the Japanese economy. Prime Minister Obuchi put it best on April 29, 1999, when he wrote in the New York Times that "we realize that

unless we adopt a more flexible economy driven by the market, Japan is doomed to economic and technological decline." We were heartened that the Prime Minister told the Diet again last January that his government would "work with greater effort" to promote deregulation and structural reform.

The pro-deregulation case is easy to make. For example, Japan deregulated the cellular phone industry in 1993; since then, cell phone prices have plunged and cell phone use has grown remarkably, with private investment in mobile service likely to reach 1.5 trillion yen this year. In real-life terms, this means millions of families and hundreds of thousands of businesses have gained convenience and efficiency.

This is an especially important story for our topic of trade policy. The fact is, our trade negotiations – so often portrayed as confrontations in which decisions to open markets are "victories" for the United States and "defeats" for Japan – are, to the contrary, initiatives from which both sides can see results that create new opportunities for economic growth and technological progress.

Financial services is an example in which Japan's successful implementation of the measures contained in our 1995 agreement on financial services complements Japan's liberalization under its own "Big Bang." Here, Japan has allowed new products – liberalizing securities derivatives, promoting a more vigorous asset-backed securities market, and introducing securities wrap accounts. It has fostered competition, through liberalizing foreign exchange trading, eliminating fixed brokerage commissions, and allowing cross-entry among financial industry segments. It has also enhanced Japan's accounting and disclosure standards. As time passes, full and effective regulatory reform of Japan's financial markets will increase competition, help improve Japan's long-term growth prospects, and contribute to a wider variety of investment opportunities for individuals and Japanese companies.

Our trade policies, of course, are rooted in the interests of the United States in a more open Japanese market. But the over-regulation, lack of competition and informal cartels we are attempting to address also serve as barriers between Japan and the Information Age; that is, between an era of slow growth and shrinking horizons and one of progress, optimism and returning strength. The matters of which I speak are not about "the U.S. versus Japan." They are about "Japan versus the Future."

Japan's future is immeasurably brighter because of the reforms adopted in the Enhanced Initiative's first two years. In telecommunications, we've agreed to cut the cost of telephone service by hundreds of millions of dollars and speed up introduction of new telecommunications services. In housing, Japan has agreed to adopt performance-based standards, reducing the cost and increasing the quality of housing for Japanese families. And in energy, the elimination of burdensome testing requirements and narrow, technical standards is creating lower barriers to entry for entrepreneurs, and greater competitiveness for existing companies.

I've crossed the Pacific this week – preceded by dozens of my colleagues in the Japanese and U.S. Governments in the last five months – to build on these accomplishments. Together with Japan, we hope to announce a detailed set of new deregulatory measures that Japan will undertake in a number of key sectors, as well as in cross-cutting areas like competition policy and distribution. If we succeed, the end result will be a much more competitive and robust Japanese economy. Let me give you an overview of what we hope to achieve in four key areas:

Telecommunications remains the heart of our efforts. It costs three times as much to make a phone call from Osaka to Tokyo as it does to make a comparable call in the United States – say from New York to Washington. In the Information Age, the cost of telecommunications is the key variable for operating a business, just as the price of oil was in the Machine Age. Paying three times as much to make a phone call to transmit voice or data is the equivalent of paying 10,000 Yen for a barrel of oil. No Japanese company can compete against American competitors (or European or Korean competitors, for that matter) with its hands thus tied behind its back. We have asked Japan to adopt a "Big Bang" in telecommunications, analogous to its financial Big Bang. This would fundamentally reorient Japan's telecommunications policies, rewriting regulatory policies and encouraging the rapid introduction of new services. An MPT official was quoted in the Financial Times this month saying that in Japan, "we recognize that the three main issues with regard to Internet use are cost, speed and security." If that's true, there's no reason we shouldn't be able to work out a deal this week.

You often hear USTR talk about market access, but what about access to quality, affordable housing for Japanese citizens? We think our deregulation talks can help there, too. The average first-time homebuyer in Japan is 39 years old, compared to 31 in the United States. Why? In the United States, the first time homebuyer can choose from an enormous range of what we call "starter" homes – that is, modest, previously owned houses priced within a young family's budget. Our housing appraisal system ensures that home prices are standardized, so that any pre-owned house has a comparable value; buyers know what features and conditions they can expect in any given price range. In Japan, the appraisal system doesn't consider any variable except a home's age. Even the most well-maintained houses lose their entire value in 27 years, so most aren't built to last much longer than that. Young families must wait until they can hoard enough money to buy a brand new, custom-made house. That's why we're urging Japan to change its appraisal procedures to encourage the development of a larger home resale market. That way, young Japanese families won't have to wait until middle age to enter the housing market.

In energy, the entire Japanese economy would benefit from the lower energy prices that would accrue from a more competitive energy market. Industrial users in Japan are hamstrung by exorbitant electricity costs, the highest among OECD countries. If Japan gets electricity deregulation right, these end-users will be permitted to buy power from a number of suppliers, not just a single monopolist. A similar introduction of competition in Europe in recent years prompted a sharp drop in prices. Introducing competition to the electricity sector can only improve the profitability and competitiveness of Japanese industrial firms. The ultimate effect: stronger

economic growth and thousands of new jobs. It is interesting to note that in addition to American firms like Enron, Tokyo Gas and Osaka Gas and Mitsubishi and Marubeni are among several groups discussing plans to supply electricity to high volume users. I note that NTT is one of the companies that has also publicly announced its interest in breaking into the electricity market to take advantage of new competition rules. And yet, NTT is resisting this very principle in its own field.

In the medical field, the typical Japanese citizen visits a doctor 15 times a year, waiting an average of three hours for a visit that lasts an average of three minutes. Prescription drug consumption in Japan is double or triple that of the United States, and it takes two to three times longer to get a new drug or medical device approved. As the Japanese population ages, it will be important to increase this sector's efficiency. Wider availability of innovative medical devices and pharmaceuticals has the potential to improve patient outcomes and the overall quality of health care. We have therefore proposed concrete measures to expedite the regulatory and reimbursement process as well as to make it more transparent and predictable, so that innovative medical devices and pharmaceuticals are available more quickly. These proposals are based on the belief that market-led innovation is the best way for Japan to meet the critical challenge of ensuring high-quality health care for a rapidly aging population while containing overall health care costs.

And we make further recommendations in a broad range of sectors and cross-cutting policy areas, including distribution, competition policy and transparency, that can also serve to increase efficiency, boost competition, and lower prices throughout the Japanese market.

ENTREPRENEURIAL SOCIETY

The work of deregulation is complex. For some it may even seem a little dull – although not for some of our negotiating counterparts, who continue to see deregulation as a negotiating "concession" and perhaps a threat to some of the companies they oversee. But as these negotiators recognize – although in a way that is ultimately unhelpful to the keiretsu groupings or the monopolists like NTT – the effects of deregulation can be profound.

That is why our deregulation initiative has come to dominate our bilateral trade agenda since the Denver Summit four years ago. Profound structural reform is Japan's only viable alternative. Continued fiscal stimulus is crucial – it will serve as the bridge financing for Japan's future -- but structural reform is the bridge to that future. Otherwise, Japan runs the risk of spiraling fiscal woes and public rejection of even larger deficits, as recently seen in Tokushima. Just spending money will yield nothing but deficits. Again, it is sugar, not protein. Tying it to structural reforms, however, gives it purpose and meaning.

At the most immediate level, deregulation means concrete and measurable benefits. Lower costs for communications, living space and energy. Therefore, more efficient companies and more return on investment. And thus, improved opportunities for economic growth and job creation.

But a second effect may be still more important. That is, Ministries may remain wary of and conservative toward deregulation, to say nothing of Diet members who are looking to protect their patrons in any upcoming elections. But at the broader level, Japan's government has intellectually accepted its importance, saying that its goal is to replace a "bureaucrat-led culture" with an entrepreneurial society. Trade policy is a means to that end.

Successful negotiations ultimately will help Japan create the non-discriminatory, transparent laws and regulations that facilitate trade and entrepreneurial activity, and encourage efficient allocation of investment. Thus they offer a chance to break the cycle of declining competitiveness and rising costs; to offer opportunities for people with ideas and new products to enter the market; to generate millions of high-paying jobs; to prevent inefficient and non-competitive entities like NTT from putting short-term interests ahead of the long-term welfare of the Japanese people; to give Japanese business and consumers a greater variety of goods and services at better prices; and to give Japan as a nation greater strength and confidence in the future.

CONCLUSION

In parallel with this, my hope is that the legacy of a decade of trade negotiations with Japan, beyond any specific agreement or export figure, will be a third transition in the trade relationship. Having moved from a focus on restricting Japanese imports to a focus on opening and deregulating the Japanese market, we can now perhaps begin to move again, from an era in which both sides see the benefits clearly and view themselves as benefitting from each other's success.

This will not be an easy transition, because it is a transition of mind as well as policy. But if it does take some root, and help to guide the next set of trade negotiations with Japan, we will have done something of great importance.

That is, we will stabilize the overall political relationship, which is so important not only for our two countries but for the world. And we will at last enable this alliance to reach its full potential: as a creator of wealth for our countries and our neighbors; as a source of ideas, invention and science that will astonish the world; and still in this new era, as it has been for the past half century, as the strongest guarantee of lasting peace in the Asian-Pacific region. I'll leave it there, and I thank you very much.

QUESTION AND ANSWER PERIOD

Q: Since you covered just about every aspect of the U.S. Japan bilateral relationship, I'm going to ask you about the WTO. In San Francisco, I think in very early March, you and, I guess someone from the Ministry of Foreign Affairs and others, held a meeting, and according to some press reports the two countries agreed to do something to lure developing nations back to the negotiating table, so that WTO talks can start in early July. Is it viable agenda and schedule and if

this schedule is going to be met then what's gonna happen to the set-up of WTO talks? And my second question is also about WTO. Lately I think the San Francisco meeting is the first U.S.-Japan working level, lively meeting held in maybe more than a year, in the meanwhile, Japan and Europe, the European Union seem to have been holding ministerial and other meetings far more frequently. How do you make out those differences in the approach?

AMB. FISHER: Well, let me answer the deregulation question you just asked up front. By the way, I say that only half in jest because we do spend a good deal of time together, if you look at the person who is doing the Sherpa work for the G-8 and G-7 Summits it happens to be Nogami-san. And we exchange views on all subjects when we get together. And of course, we have made very clear, our President has made it very clear that we would like to launch a new round. We'd like to launch it before the Summit. He has issued that challenge to the Japanese Prime Minister. It takes 135 to tango in the WTO. And it takes leadership from certain countries to move forward on this plane. And Japan is one of the leaders. But this isn't a matter of rhetoric; this is a matter of leadership. What we found in Seattle were certain obstacles to even following through with the so-called built in or mandated agenda. One was agriculture, and the other was services. Those are the two main ones. We have now started that process. Although they don't have end dates yet declared. But we are moving down that road.

The other aspects of putting together a comprehensive package to launch a new round are certainly worthy of discussion and as you correctly have pointed out Ambassador Barshefsky and the ministers from the Foreign Ministry and so on have had some discussions to this end; and the President has communicated with the Prime Minister as to his interest to getting, in fact rather forcefully, getting a round launched. And we have some time between now and when the Summit takes place to see whether or not those ingredients can be put together. We all learned from Seattle. By the way you plan these meetings well in advance. What appeared to be a series of stars lined up in a beautiful constellation turned out to be a series of black holes. By the time we got to Seattle...nonetheless there's still our basic obstacles that one has to get over to move forward.

That have been kicked down the road by previous rounds or under the GATT. One of them is agriculture. And there we did not have a meeting of the minds to put it politely in Seattle. Either with the Europeans, or with the Japanese or with others. The service agenda is an important one for us because we employ a hundred million people in services in the United States. And then there is the issue of how we make the system more transparent and bring the so-called, formerly called third world countries, into the system so they feel that they have equity in the WTO aren't mystified by its processes. And each of us are collecting our thoughts. The Sherpas are discussing this matter and we'll see if they can come forward with a realistic ability to launch before the Summit.

Q: Two questions please. One, the American Chamber of Commerce in Japan is, as you know, has recently put out a report saying that only 53% of past trade agreements have been successful. So I'd like to know whether you accept that report card and whether you think you can better it or is this just the nature of the beast when dealing with Japan. My second question is broader.

You said on one level the Japanese bureaucrats essentially see the negotiation as a threat, a threat to political interests. And on the other hand you say that the Japanese government intellectually accepts the need for this. So which is it? Is the columnist right or wrong? And more broadly, it seems to me that your remarks today are a real intellectual challenge, an ideological challenge to Japan. Isn't though our policy that we don't meddle in the domestic affairs of other countries? And aren't you essentially proposing kind of a domestic meddling on a grand scale? And could you respond because I think, perhaps, people like Senator Helms in the United States listening to a speech like yours today given by a foreign leader might take issue with it. So I wonder how you'd answer that? Thank you.

AMB. FISHER: I think Senator Helms would take less issue if we were on our back than if we're on our feet. And secondly, I would make this point, this is not just the United States speaking. Europe has made the same proposals. The President of Sony has made the same proposals. The President of Fujitsu has made the same proposals. The head of the Keidanren has made the same proposals. I could walk you through the list. I'm talking about NTT and telecommunications. And I don't know a CEO in this country outside of – maybe, well, actually to be fair, I think the CEO and Chairman of NTT may be much more creative than people give them credit for. But I don't know a CEO of a major company in this country that isn't worried about Japan's future. That is the transformation to the information age. How could you not be worried? You haven't grown in ten years. It's not a matter of meddling. There is a tradition of discussion between the United States and Japan.

There is, of course, a buzzword for some influences at sometimes asked for or solicited or otherwise offered without being asked for – gai-atsu. But the point is, from our standpoint, there are selfish motives. If the housing market changes then we sell more wood into this market. If the telecommunications becomes competitive, then of course, our suppliers as well as our competing companies, as well will have access to this market. The point is, it's a win-win proposition. But it takes some of the negative juice or the negative angst steam out of the traditional trade dialog that we have. We're talking, as I said in my speech, about market access. And one way to achieve market access is to have structural reform. When I say that the government has accepted the concept intellectually, one thing is to be an ivory tower the other is to put it into practice. If you sit down with most vice ministers in this government you'll hear words like return on equity and so on. I'm not sure they know what that means. I do think though that there's a sincere desire to try to understand the fundamentals of globalism, and secondly the fundamentals of the information age. These are not bad people. They're good people trying to do the best for their country. Just as we hope we're good people trying to do the best for our country. But the difficulty of making a transformation from a highly successful period where over a very long time frame, after a totally devastating economy, in the manufacturing age, one could think of, not always successfully but allocating resources inputs and outputs. And do very, very well.

Again in the manufacturing sector, Japan, half the size of the United States, produces as much as we do. It's extremely impressive. We don't denigrate that success. But it requires a different mentality to live in the information age, a shift in paradigms. And accomplishing that shift is a very

difficult thing to put into action. And, by the way, it's a bit of a frightening thing to put into action. We know from our experience only 12 years ago, having been written off as a loser, we were becoming a second rate power. That we were able to overcome this by deregulating and taking the hands of government off and let private women and private men put their brains to work to adjust our society and they did it well. We don't think there's anything uniquely cultural about America that restricts that in its application that can't be transferred within the cultural context of Japan. We see it happening elsewhere, begrudgingly in Germany, to a degree in France, aggressively and impressively in Korea. And therefore we think it can happen here in Japan.

Now, tell me what your first question was.

Q: Again, the ACCJ report.

AMB. FISHER: Well, first of all, I think those reports are very useful. I note the sense of pride that the agreements that we negotiated in this administration received higher grades than those of previous administrations. But I won't mention that. I think it's very important that we have people that monitor the enforcement of these agreements. And we're learning a lesson, frankly, here. I was given a commitment by my counterpart in Birmingham, actually in London, after the Birmingham Summit. And my president and the Japanese prime minister, the former prime minister, stood up and spoke about the fact that LRIC, this incremental costing technique, would be implemented, it says it in black and white, in the Year 2000. And now they're arguing against us. Well, should we phase it out over a four-year period? Two year period? And so on? Well, that's why it's important to follow up and make sure that we have a review of what was said and what is done. So, I don't mind the reports at all. I think it's a good thing. I'm happy that someone does it. And what we should seek to do is both governments is to live up to the commitments that we make to each other. So, (A) I'm proud of the fact that we got a fairly decent report card from this group, but (B) you make commitments with other people, you keep your word. And so for others to tell us when we're slipping, that's good.

Q: You said, Ambassador, that we all learned lessons from Seattle. But I wonder. The lesson to me that seemed to come out of Seattle, is if you push trade and investment liberalization too rapidly, you get a backlash, an inevitable backlash. Aren't you afraid that if you continue to, as it were, ram deregulation down people's throats that you will get a similar backlash. If de-regulation does have the merits that you claim it does, and I think there are some ifs to be thought about here, but I won't expand on it, it'll take too long. Wouldn't it be better to allow a little more time for people to see the benefits, to absorb this, to realize this for themselves, and then for them to want to go on, rather than to risk, as I say, pushing too hard and provoking a back-lash which could set the whole thing back far more...

AMB. FISHER: I'll answer your question but let me first tell you my favorite story from Seattle which you just reminded me of and I'm going to take advantage of having a room full of people. To show you how sometimes things change and sometimes they don't. The last night of the Seattle, there were four of us that met, Gene Sperling and I and two others managed to get a car

to take us to the airport individually because the demonstrators were going to take over our hotel again and lock us back in our rooms and I just didn't want to experience that and I had a commitment to be with my wife Saturday morning in Washington. And so I got in a car and with a young bodyguard form the Seattle police force and we started to drive off and we were surrounded by demonstrators who were pounding on the car, throwing rocks, throwing eggs, I felt like David Rockefeller in Latin America just being besieged. And I turned to this young guard who was beginning to sweat bullets, literally take his sidearm out of his holster and I said, "Just hold on, this is 1969 Cambridge Massachusetts, any university in the United States, all over again." Now I knew I was in trouble when he said, "Sir, I wasn't born in 1969." And so, what I did, was I got out of the car myself, and a woman came up to me. I can see her face to this second, put her nose right in my face and screamed at me, veins bulging out of her neck, and said, and I quote, "This is 1999. Power to the people, you capitalist pig!" And I said, "What did you say?" And she screamed out again. So I grabbed her by the shoulders and I said, "Listen, in 1969, I was where you are and if you're not careful, you'll grow up to be just like me!"

Now, as far as deregulation is concerned, you have a point. The question is how much time do you have to think about it? We live in the information age. A generation is no longer 20 years. It's three years or four. So, the idea that one can take their time to adjust to the information age, I think is questionable. Imagine how far you can be left behind. Let me just give you some numbers. I'm glad that you asked this question, by the way. But if you look at, in our own case, the last four years. In telecommunications alone, there were 57 local competitors in 1995. Today there are 355 phone companies. There were .6 million miles of fiber installed in 1995 in the United States. We've had a 500% increase, now 3.1 million miles. The lines that were offered by competitors in our telephonic market have gone from one million to ten million in four years. And the amount of local employment that has been created has been over 70 thousand jobs. The numbers are rather impressive.

And things move ultra quickly. If you look at e-commerce, I don't have these numbers in front of me, it didn't exist four years ago. And today, we think this next year, it will approach a rather, almost phenomenal level. I forget what is the number, Barbara? A hundred billion. These are striking changes in the information age. So, yes there could be a backlash on deregulation. It's no unique to the United States to have deregulated. The British did it rather well under Margaret Thatcher and very impressively under Tony Blair. The Germans are working hard at undoing their cross-share holdings and creating tax systems that make it more attractive to adjust their market. The French are doing the same. And of course, those that were put under pressure by the Asian financial crisis are working to de-regulate their economies. And then we have this huge model of the last communist monolith in China. If it were so unattractive, why are they working so hard to join a group that basically enforces the system of deregulation and market competition? So this is not a uniquely American idea. The only reason I mentioned it, and perhaps you misunderstood me, is I will stand in front of you and tell you that it saved my country. It saved my country from second class status. Which great minds, although they went to Yale, like Paul Kennedy, were saying we were doomed. So, maybe it's the deficiency of a Yale education, I'm not sure.

But, none the less, it worked for us. We like to spread the gospel. We realize it has to be done within the cultural context of different societies and we're fully cognizant of the fact that if you don't make the shift, from machinery age to information age, you will be left behind and you may not ever be able to catch up. And by the way, you don't have 20 years to sit and ponder, you might have three or four at best.

And lastly, Hong Kong, Seoul, Singapore, Beijing, Shanghai, they're working very hard to out-compete Japan and in a cyber world, you can be separated by great geographic distances and be left behind.

Q: One of the places we've seen a backlash against deregulation and open markets is in the U.S. In recent times we've seen the opportunistic anti-dumping cases from U.S. steel makers, ironically in agriculture, with the tariffs against lamb imports from the Southern Hemisphere, New Zealand, and Australia, the continued 25% tariffs on these sort of trucks, I think they're called these sort of red-neck "ute" things, can you perhaps comment on whether this ideologically undermines your position as a champion of free-markets deregulation and on a practical level, whether its going to have any impact on continuing negotiations? This perception, if it's a perception, that the U.S. is backing away from open markets.

AMB. FISHER: That's a very thoughtful comment. Let's put it in perspective. If you take the sum of all of our countervailing duties, and our anti-dumping measures, they add up to 0.4% of our total imports. Let me repeat that. The dollar sum of all of our counter-veiling duties and our anti-dumping measures add up to 0.4 % of the 1.2 trillion dollars in imports that the United States sucks in, sucks in from all those economies that needed to export somewhere else. Now this is an area, as a free trader, as Ambassador Barshefsky is a free trader, that is not a pleasant area. Think about what you're talking about here. You're talking about agriculture sector, and the machinery sector is where you have, or the machinery age sector is where you have excess capacity. And I think we need to work at setting aside lamb for a minute, in the case of steel for example, we have to work to somehow rationalize that excess capacity through out the world in a cooperative manner. The President has put forward a program to do that. By the way, steel prices have lifted. The largest single export of the United States is Brazil, in terms of steel, and we are in the process of working with our trading partners to try to rationalize the system to the greatest degree possible. But you're right, there are specific sectors where we do have forces of concern, in some cases, forces of protectionism. But, although I know this is very difficult because I was involved in the lamb decision, in the case of Australia and the case of New Zealand, put it in perspective. These are painful as far as the specific sectors are concerned but in terms of our total economy we have an applied tariff rate of three percent. We are arguably the most open and accessible markets in the world. And the total sum of the countervailing duties and anti-dumping measures in dollar terms is 0.4 % of the imports that we import into the United States.

Any other questions? One more question.

Q: My question is about electricity because today is the first day of the opening of the market

here. So the Japanese claim that it's already a big opening because it's 30 percent in one part of the market so what is your comment? Thank you.

AMB. FISHER: It's a good opening. It's something that we've worked on within the context of this enhanced initiative on de-regulation and as I said earlier. I don't know where I put what I said. But basically, this is important to drive down the cost of doing business for end-users like Toyota or Nissan, or whoever it may be. I'm looking at Gota-san [phon.] here to make sure that I get the right auto company, or any manufacturer. Electricity is an important input to a cost structure. And the purpose of de-regulating roughly a third of the electricity market here is to cheapen the cost of business so they can ramp up the return on assets, the return on equity, and hopefully create more jobs. The important thing is that U.S. companies and foreign companies

Tokyo Gas and others, including NTT, who don't have access to this. Now the issue is, it's one thing to say you're going to open and de-regulate. The question is how transparent the process

a reliable contract? And how long the contract is dated? And I think those particulars still need to be particularized, worked out and who ever asked me the question, monitored as we go through

Thank you very much.

(end transcript)